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ABSTRACT

This document is one in a series of three monographs developed by the National Association of State Boards of Education and designed to acquaint the reader with consumer education issues and how they affect policies. Included in these monographs are articles on what should be taught as part of consumer education, how consumer education programs should be designed, and some current consumer education topics. The articles contain some suggestions for developing policies intended to provide students with practical life skills without detracting from the high priority placed upon reading and math. Focusing on current topics and issues, this monograph presents the following articles: "Energy Scarcity: The Impact on Consumer Expenditures and Life Styles," by Roger LeRoy Miller; "Human Services: The Growing Expenditure," by Alan Gartner; and "Consumer Education for Economic Survival in the 80's," by Virginia H. Knauer. (BM)

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PERSPECTIVES ON CONSUMER EDUCATION

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A NASBE Monograph Series

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Energy Scarcity: The Impact on Consumer Expenditures and Life Styles

by Roger LeRoy Miller

Do you remember the days when "fill it up" meant an expenditure of $6 or $7? Do you remember the days when your electricity bill was only $10 or $11 a month? And not too many years ago, you could buy fuel oil in the winter for 15¢ a gallon. Times have changed. The energy picture today is much different than it was yesterday. It promises to change even more in the future. Energy in virtually all of its forms has become relatively scarcer in recent years. This increased relative scarcity has brought with it dramatic changes in consumer expenditure patterns, as well as sometimes subtle, sometimes obvious changes in American life styles.

An analysis of the energy problem is, of course, an important endeavor for all of us. The junior high, and particularly the high school/college student, however, is an appropriate candidate for the study of the energy situation. If our young people can have an appreciation of the options open to them while they are forming life style ideas, then they will have a firm basis on which to construct consumer pat-

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terms in the future. Perhaps equally important is the way in which an analysis of energy can provide today's students with *general* consumer decision-making principles. And, finally, in the process of analyzing energy along with consumer principles, students can obtain a better understanding of how our economic system works and what the broader topic called economics is all about.

In what follows, we will look at a short history of the energy problem, then its impact on different sectors of the economy, and finally, several sections on how general consumer/economic principles fall out of the analysis.

A SHORT HISTORY OF THE ENERGY PROBLEM

A nation does not become "energy starved" overnight. We did not have abundant energy supplies up to 1973-74 and then suddenly lose all of them. A number of factors were at work prior to the so-called energy crisis that occurred in the winter of 1973-74. Out of the many contributing causes of our long-range energy problem, we can focus on two of the most obvious—electricity and natural gas.

Electricity Costs and Pricing Policies

For many years prior to the end of the 1960s the absolute price of electricity (the price that you and I paid in dollars and cents) kept falling. The electricity industry was experiencing decreasing costs which were passed on to consumers in the form of lower electricity bills. The era of ever-cheaper electricity seemed to have no time limit. But a crisis was in the making, for during the 1960s, we became concerned about ecology and destruction to the environment. Electric utility plants, which spewed out smoke from fossil fuel generation systems, were a prime target of clean air advocates. Slowly but surely, rules, regulations, and standards were imposed upon the electricity industry. What did that mean? Higher and higher capital costs as increasingly expensive equipment had to be installed on existing equipment and new equipment had to be made with various and sundry pollution abatement devices. The cost, therefore, of providing new capacity was rising.

Furthermore, we were entering a period of increased and continued inflation, starting in 1964-65. That inflation has

not abated. Public utility commissioners who were used to granting rate decreases to electric utilities were now bombarded with requests for rate increases. They responded slowly, not believing that costs had actually risen so much. The electric utilities responded in turn to this regulatory lag. They did not expand capacity as fast as consumers increased their demand for more and more electricity. Systems started to become overloaded. The era of cheap electricity was replaced with an era of brown-outs and black-outs.

Additionally, few, if any, electric utilities could convince the regulatory commissioners that a higher price should be charged during peak periods of demand in order to avoid overloading the system. Using the law of demand—the quantity demanded falls when the price goes up—the utilities reasoned that when consumers of electricity were faced with higher prices during peak periods, they would cut back on their use. It is only recently that peak-load pricing has been allowed in a number of states. Had it been started many years ago, we probably could have avoided at least some of the brown-outs and black-outs that caused so much disruption in the daily lives of millions of citizens.

Finally, fuel costs—all fuel costs—were going up, and they continue to do so for electric utilities. They are being hit by a triple whammy: higher costs of capital equipment due to inflation, higher costs of capital equipment due to pollution abatement additions, and higher fuel costs. Higher electricity prices are a certainty in the future.

Natural Gas Regulation

We have had an impending natural gas "crisis" for years prior to the 1973-74 energy crisis. It all started back in the 1950s when a decision was made by the Federal Power Commission to allow area pricing regulation. That meant that once a particular "fair" price was determined for a particular geographic region, then everyone selling natural gas interstate from that region had to charge the same price. (The Federal Power Commission does not control the price of natural gas sold *intra*state.)

Prices in the general economy were rising gradually because of inflation. Moreover, the demand for natural gas started increasing in the 1960s as more and more utilities

and businesses wished to use this cleaner form of energy in order to abide by new anti-pollution regulations and standards. The Federal Power Commission was unwilling, however, to allow the interstate price of natural gas to rise fast enough. The result was right out of a classic economics textbook example—the quantity demanded at the regulated price was greater than the quantity supplied. The result was a gap, a so-called shortage. Firms which wished to hook into a natural gas line were refused. Other firms were told that their service would be "interruptible"; that meant that they could be cut off any time there were insufficient supplies to meet the demands. Natural gas producers held back on their production hoping for higher prices in the future; natural gas demanders who were lucky enough to get natural gas, used it in abundance since it was so relatively inexpensive.

And what about all of those electric utilities and manufacturing plants that were denied natural gas hook-ups? They went to substitute energy sources, mainly petroleum products. The result was and continues to be a reliance upon petroleum products. It is therefore not surprising that our dependence on foreign oil has increased over the last ten years. So long as natural gas is unavailable, we will continue to demand more and more oil.

The Crisis Occurs

The energy crisis that everyone remembers most occurred in 1973-74 when the Organization of Petroleum Exporting Countries (OPEC) imposed a boycott on purchases by the United States, as well as by other countries not sympathetic to the Arab cause at that time. OPEC was able then and continues to be able to raise prices to American and other foreign buyers of crude oil. Basically, OPEC is able to do so because it acts as a cartel, or monopoly, of oil producers. Further, Saudi Arabia, the main producer of OPEC oil, has been willing to cut back on its production to keep the price propped up. It turns out that the only way higher prices can be sustained is to supply smaller quantities to more-than-willing consumers. If Saudi Arabia were producing at full capacity, world oil prices and, hence, the price of gasoline and heating fuel in the United States would be much lower. But they aren't. So long as OPEC effectively restricts its total output

of crude oil, we can expect to pay relatively high prices for that precious fossil fuel.

THE DISRUPTIVE EFFECTS OF ENERGY CRISES

The impact that the problems with electricity, natural gas, and petroleum products have had on various sectors of the economy can be analyzed using supply and demand analysis, along with observations which we all were forced to make.

Waiting in Line for Gas

When the energy crisis hit in 1973 and 1974, it did so with a vengeance, not because we were unprepared but because the forces of supply and demand were not allowed to work themselves out. In one fell swoop, we lost the availability of perhaps 10 to 15 percent of our supply of crude oil. The demand for petroleum products, however, stayed about the same. Normally, then, we would expect to see a rise in the price of gasoline, heating oil, and other petroleum products. That price rise would have done two things: discouraged consumers from buying as much as they had bought in the past, and encouraged producers to figure out new ways to get more out of the ground and into the gas pumps. The price didn't rise. It stayed about the same, at least for gasoline. Why? Because the Nixon administration kept price controls on petroleum products. Then the Administration exacerbated the situation by using arbitrary allocation schemes based on the prior year's sales throughout the country. Use of that index produced chaos, however, because people just avoided long distance travel during that period; they were afraid that they wouldn't be able to get gas. Gas stations along interstate highways were loaded to the brim with gas. Gas stations in the cities didn't have enough.

What happened in the cities is, again, a textbook example of an excess quantity demanded at a price that is set too low to clear the market. Long lines formed and various methods were used whereby consumers struck deals with retailers in order to get gasoline into their tanks. These "deals" ranged from under-the-counter payments to a friendly attendant in order to gas up late at night or early in the morning, to ordering unnecessary oil and lube jobs in order to get a fill-up, to paying teenagers to wait in line for gas.

No Natural Gas—No Factory Production

During this same period, a lot of factories had to close down because they were not given enough natural gas to run their machines. The crisis hit everywhere. The disruption in the lives of the workers and in the consumers who relied on the products being produced was tremendous. Those factories that really got hurt turned in droves to alternative energy sources on which they could rely. As pointed out above, many of them turned to fuel oil figuring that in the future, even if it were restricted, it would still be more available than natural gas. The human tragedy involved was felt by many. Workers thrown out of jobs because there wasn't enough natural gas to keep their factories open felt cheated, particularly when they found out that someone arbitrarily made the decision to close the pipes. Since at the controlled prices there just wasn't enough natural gas to go around, the decision had to be arbitrary, so anyone who was cut off was going to feel that the decision was unfair.

A SIMPLE ECONOMIC ANALYSIS OF ENERGY DEFICITS

For the moment, let us combine all sources of energy—fossil fuels, nuclear fission and fusion, the sun, rivers, tides, and so forth—into one term. We will refer to all of them simply as "energy." There has been a tremendous amount of discussion about the need to engage in extensive conservation programs for energy because we are using it up at a faster rate than we can supply it. The argument is couched in terms of an energy deficit.

The Energy Deficit

Generally, the argument has been presented in the following manner. A trend estimate of energy supply is calculated. It is done on the basis of past rates of increases in supply, along with knowledge of future improvements in technology. Another trend line is estimated and it is called energy demand, or energy needs. This estimate is based on the historical growth rate of the quantity of energy demanded. These two ... lines are then drawn on a chart. Invariably, the energy demand line rises at a more rapid rate than the energy supply line. The difference is labeled an energy deficit. The government, as well as numerous private firms, have made

various estimates of the energy deficits for 1980, 1985, 1990, and the year 2000. This analysis is deficient, however. It ignores one key variable—the price of energy.

Energy's Relative Price Changes

If we look at the energy question from a long-range point of view, we might have a difficult time accepting the prediction of a continued energy deficit throughout the foreseeable future. Such a prediction does not take into account changing *relative* prices. In unrestricted situations, relative prices will change in order to balance the quantity of any particular good or service demanded with the quantity supplied. Energy, in principle at least, is no different from any other resource. Thus in a long-run, unrestricted situation, we would expect that the relative price of energy, or more specifically the price of the various components of total energy consumption would change so as to bring total quantity supplied into accordance with total quantity demanded.

If, in fact, a "deficit" began to develop, the relative price of energy would rise so that the quantity demanded would fall. At the same time, this price rise would bring additional investment and eventually additional supplies to that particular area.

Energy Needs

Nonetheless, the above analysis is not usually presented by those who favor severe cutbacks in energy consumption in order to keep us from consuming "too much" energy. These individuals present, instead, a fixed formula showing energy "needs." In economics, however, it is difficult if not impossible to talk in terms of need without relating that term to the price of the commodity in question. As far as the basic law of demand goes, the quantity "needed" depends on the relative price of the product. At higher relative prices of gasoline, for example, consumers of gasoline consume less. They consume less by reducing their use of the resource. They voluntarily reduce the number of trips they take, increase the number of car tune-ups, and alter the manner in which they drive. To drive this point home, let's take another example which relates to the demand and supply of heating oil for home use.

Consumers React to the High Price of Heating Oil

During the energy crisis of 1973-74, policymakers worried that consumers would have an insufficient amount of fuel oil to heat their homes. Many commentators predicted freezing homes. The general public became more concerned when the Denver schools had to close for lack of fuel oil. Nonetheless, at the end of the 1973-74 winter heating season, the amount of fuel oil in the inventories of oil companies was greater than at any other time in the history of the United States! How could that have occurred during such a crisis?

For one thing, a powerful force was causing consumers of fuel oil to lower their thermostats, to close their windows, to take all sorts of measures to reduce their total heating bills. That powerful force was a gradual, but nonetheless significant, rise in the price of heating oil.

At that time, the Federal Energy Office (later changed to the Federal Energy Administration and now the Department of Energy) was allowing the price of fuel oil to be raised several cents a month. Several cents does not sound like much, but after a number of months the price to consumers of fuel oil had risen approximately 50 to 70 percent over the levels that prevailed the previous year. At the higher relative price, consumers voluntarily conserved fuel oil.

What we found out was that the "required" or "needed" amount of fuel oil was related, at least partially, to how much consumers had to pay for it. When they had to pay more, they decided that they could live in a house at 68 degrees instead of 72 degrees, thereby freeing income that would otherwise have gone to paying higher fuel bills.

What About the Supply of Energy?

In this section, we have examined for the most part the demand, or consumption, side of the energy picture. The supply side lends itself to a similar analysis, only now we are referring to the producers of energy. The fundamental law of supply is that, in general, at higher relative prices, a larger quantity will be forthcoming. Suppliers react to higher prices of energy. They are willing to expend more effort and money to find ways to produce more in order to benefit from the potential profits. Furthermore, the higher the price of a particular energy source, the greater is the in-

centive for suppliers, both real and potential, to seek lower cost substitutes to sell to more-than-willing consumers. One could say that the history of the world has been a history of substitutes being found that are, in some way or another, better suited to consumers. When current energy sources are priced high enough, more funds will go into research and development of, for example, solar energy. Right now, at current relative prices, it is not profitable for producers to spend large sums of money to develop energy from the sun. That may not be the case in the future. In any event, it appears that it will be a long time before we actually run out of current energy sources.

Back in the 1930s, estimates of proven oil reserves in the United States were such that it appeared we only had about twenty to thirty years of oil left. In 1970, the U.S. Bureau of Mines published a prediction telling when known world-wide reserves would run out. Under the row marked "petroleum," we find that the estimate is twenty years. How can it be that known world-wide reserves of petroleum are about the same in the 1970s as they were in 1930? The answer is not hard to find. The concept of known, or proven, reserves is not physical, but rather, economic. Proven reserves are officially defined as reserves that can be taken out of the ground *economically*. What does that mean? Simply that proven reserves will change whenever one of two things happens: the price of petroleum goes up relative to the cost of production, or the cost of production goes down relative to a stable price of petroleum products. We have seen in the last few years a quadrupling of oil prices. The incentive to search out more reserves has increased tremendously. The result has been, naturally, an increase in world-wide proven reserves.

It is not impossible, of course, for us to actually run out of oil. Simple arithmetic tells us that if we take the total amount of oil in the entire earth and use it at some rate per year, eventually there will be no more. But, long before we even remotely approach that time, we will stop using fossil fuel petroleum products. Why? Because they will have become much too expensive to take out of the ground. We will have gone to alternatives such as nuclear fusion or solar energy.

We can learn from both history and economics. The former shows us that we have as a nation and a world constantly changed. We have reacted to changing relative scarcities by altering our consumption patterns and our production techniques. The latter—economics—allows us to predict where these changes will occur most rapidly. The energy source whose relative price rises the most rapidly will be the one for which consumption will be cut back the most dramatically and for which substitutes will be sought with the most intensity.

THE CHANGING ENERGY PICTURE AND CONSUMER EXPENDITURES

The price of all forms of energy has risen. Consumer expenditures on electricity, heating oil, and gasoline have risen accordingly. We are now spending a slightly larger fraction of our total expenditures on all energy sources. What does that mean? It means that as a nation we have had to cut back on the purchase and consumption of other desired goods and services. We have had to adjust to a new set of constraints, those constraints being relatively higher prices for a subset of goods—energy—compared to all other things we like to buy. As consumers, though, we have not stood idly. We have reacted appropriately and in our reaction, we have altered our life styles, as well as our expenditure patterns. Consider a few examples.

How to Love a Small Car

In the winter of 1974, there were auctions in football fields throughout the country. The items to be sold? Cars, but only the very large American manufactured ones. New car dealers could not get rid of them. Consumers were worried about the price and availability of gas in the future. They wanted small cars; they wanted cars that had small engines. The small car boom was to begin. Although somewhat toned down, it still continues today. The number of small cars introduced each year has increased. Gas mileage has become an important selling point on car lots. Thus, the American consumer has reacted to a higher price of gasoline by demanding a car that consumes less. The first law of demand holds: the higher the relative price, the slower the quantity demanded. No longer is America only a nation of full-size

Chevys, Fords, and Buicks. The percentage of imports (mostly small) has increased from a mere 4 or 5 percent twenty years ago to close to 20 percent today.

Expensive Electricity Means More Efficient Appliances

As the price of electricity has risen, consumers have become more concerned about the amount of energy that their appliances consume. The result has been the search for more energy efficient refrigerators, ranges, and air conditioners, to name only a few. The Energy Efficiency Rating (EER) is something new in the American appliance world. During the era of ever-declining electricity prices, few consumers needed to care about the energy efficiency of the appliances purchased. Today we do. Again, this is consumer response to rising prices.

Housing Will Be Different, Too

Higher prices for all sources of heating and cooling have caused American home buyers to rethink the type of house in which they want to live. New houses are being constructed with energy savings in mind, *to wit*, they have better insulation against cold and heat, better ventilation for cooling in the summer, and even solar panels to provide a certain amount of energy for household uses. If, indeed, the price of energy sources continues to rise at a faster pace than general inflation, we shall see more and more energy efficient houses being built. And the way that we live in those houses will undoubtedly be different. Many people have become accustomed to setting their thermostats higher in the summer and lower in the winter. Why? In order to save on utility bills. That has been their response to higher energy prices. In the process, their life styles have been changed. The necessary comforts of the past become, to a degree, less necessary. We sweat a little more in the summer and wear more sweaters in the winter.

ENERGY AND CONSUMER DECISION MAKING

What consumer principles can be extracted from an analysis of the energy problem? There are many, but the basic ones stand out clearly:

1. When the relative price of an energy source rises, two actions are possible—conservation, and a search for substi-

tutes or alternatives. When the price of gasoline rose, ways to conserve became more obvious; they included driving less, driving more steadily, keeping the car in tune, and sharing rides with other people. Substitutes were looked for and they included walking, bicycling, using a motorcycle, using public transportation, and switching to a car that consumed less gas.

2. When the benefits of a consumer action increase, more individuals will engage in that action. No one bothered to take the time to figure out energy use of appliances in the 1950s. Why? Because energy was cheap. In the 1970s, many consumers check out the EERs of the appliances that they wish to buy. Why? Because the benefit of purchasing an air conditioner, say, with a good EER is greater today than it was in the past. The same physical energy savings mean more today than in the past because energy is more expensive.

3. When the benefits are great enough, the consumer will consider the long-run, as well as the short-run. It may cost a lot of money to have one's attic and walls insulated. The cost is immediate. The benefits, however, are spread over many, many years. They consist mainly in lower utility bills from cooling in the summer and heating in the winter. When the price of energy is low, the long-run benefits don't seem too impressive compared to the immediate cost of insulation. When the price of energy is high, those long-run benefits add up to something significant. Hence, the decision is taken to incur the immediate cost in order to get that long-range stream of greater energy savings.

CONCLUSION

The list could be made longer. It could be more refined and detailed. The point is made, however, already: knowledge of economics, economic events, and consumer principles are intimately intertwined. Knowledge of one leads to knowledge of the others, and understanding of one can only fully be developed by understanding the others. A student can better face his or her role as a citizen-voter-wage earner-consumer when armed with at least the basic ability to apply consumer/economic principles to the world around him or her.

Human Services: The Growing Expenditure

by ALAN GARTNER

Traditionally, when we think of consumer education we think of preparing people to function in the marketplace: helping them to decide what goods (or less frequently, services) to try, to compare cost and quality, to choose among the various alternatives, to make the purchase, and to arrange for payment. We also think of making buyers aware of appropriate expectations for quality and performance and, if dissatisfied, of the procedures for redress.

If we apply this same definition to the human services, we can see some of the reasons why consumer education has given this area little attention.

Functioning in the marketplace. Most human services are not provided in a traditional marketplace. Some, such as education and social welfare services, are largely provided for by the government. Others, such as health, are obtained through one's place of employment and increasingly through public resources.

Decision to purchase. In some areas such as education and some aspects of health care (vaccinations, for example), the consumer has no choice; the law mandates use. In other areas, rather than the consumer deciding, the provider tells the consumer whether the service is needed. For example, we go to a doctor to "tell" us whether we are ill or to a lawyer to "tell" us whether we have a legal problem.

Cost and quality comparison. In some cases, individual costs are not known. In many cases, discussions about price

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are viewed as inappropriate. Often we do not have appropriate yardsticks for comparing the quality of the services of one lawyer to that of another, or of one doctor to another.

Choosing among alternatives. Where the service is mandatory, as with public education, there is no choice except for those who can afford private schools. For poor people, health, welfare, and legal services are provided with few alternatives available. Even where choice is available, the absence of sufficient information for making the choice serves to circumscribe it.

Making the purchase. In many of the human services, no purchase is made. For public education and welfare services, payment is not at the point of delivery but through general (or specific) taxes.

Arranging payment. Even when a purchase is made, such as for health care, payment is not made. Two-thirds of health costs are paid not directly by individuals but by a third-party (the government, employment-derived insurance coverage, or other forms of health insurance).

Quality and performance expectations. As with the decision to utilize a particular service, quality and performance expectations are often established by the professional providers, frequently without consumer involvement.

Grievance redress machinery. The devices vary from the political process (as with elected school boards), to professional organizations (for health care, professional standards review organizations and for legal services, bar committees.)

There are other characteristics of the human services which mitigate the attention of consumer education. According to the prevailing wisdom, health, educational and social services are both necessary and beneficial. Concomitantly, the individuals and institutions which provide these services (in contrast to those who sell goods) are granted many privileges and powers. While we recognize the need to be wary of car dealers who try to sell us options which we neither need nor desire, we are far less likely to suspect a doctor of doing something for any other reason than our own benefit. Stated differently, a posture of *caveat emptor* is imperative for doing business in the private goods sector; as a society, we have not considered it necessary for the human services.

It is not only the general attitude we have about the human services and their providers, or the structural characteristics of the services themselves, which has led to their being largely ignored by consumer education. Additionally, there is a prevailing societal attitude that the important activities (the "real work" and the positive contributions to national well-being) are in the private goods sector. In a sense, there is a lag in national consciousness.

In a number of ways, the human services are becoming increasingly important:

- A growing percentage of the work force is in the services. Since 1947 more people have worked in the services than in goods production. The most recent figures indicate a 68:32 ratio between workers in the services and those in industry.
- Human services constitute an increasing percentage of the Gross National Product, with health alone rapidly approaching 10 percent.
- Human services, in addition to their intrinsic value, have an instrumental function. For example, education is valuable not only in itself but also for the opportunities it creates. So, too, health services provide not only an immediate benefit but also offer future benefits.

The presumption of beneficence on the part of human service providers has led consumer educators to give less attention to human services than to the "for-profit" goods sector. So, too, the role of the government as the provider of most human services has diverted the attention of consumer educators. Finally, the marketplace focus of much of consumer education has encouraged less interest in an area where markets are traditionally thought of as absent.

While its focus has been limited,* in the past few years

* A survey of high-school and college consumer education textbooks, conducted by the New Human Services Institute, did not find a single book giving attention to education as an object of consumer concern, and while each book had a chapter or section about health care, over 90 percent of each of those chapters was devoted to payment schemes and barely a page or two about health care, how to achieve and maintain good health, the role of medical providers, the bases for choosing among providers, steps to take if dissatisfied, and so forth.

increasing attention has been given to the human services by the consumer movement in general, as well as by consumer education in particular.

- Lawsuits brought by consumers and the government are challenging professionally imposed (and often governmentally sanctioned) restrictions on information available to consumers. The Supreme Court's decision (*Baies & O'Steen v. State Bar of Arizona*) ending the ban on advertising by lawyers has affected not only the legal profession but other professions as well (doctors, dentists, accountants, counsellors, etc.)
- *Checkbook*, published by the Washington Center for the Study of Services, provides information on and comparative evaluation of services for Washington, D. C. consumers.
- In higher education, the student's rights to know fully and honestly what is being offered by colleges has been bolstered by the requirements of the Education Amendment of 1976, and through the work of the National Task Force on Better Information for Student Choice; "truth in advertising" is coming to the college catalog.
- Efforts are being made to give consumers options where previously they had none, through the establishment of markets or market-like conditions. In education for example, Massachusetts provides vouchers to low-income and poorly educated adults for extension and continuing education; "educational brokering" is developing as a way to provide students with independent information about and linkages to appropriate program offerings; the concept of alternatives within the public school system (which Mario Fantini calls "public schools of choice") is bringing options into a monopoly system.
- The growing number of programs in self-care, self-health (as well as broader self-help), mutual aid, and community participation represent important consumer efforts. There are also a raft of books instructing the consumer: in health, *How to Choose and Use Your Doctor*, in education, *Schools Where Parents Make a Difference*, in mental health, *You Are Not Alone*. This

last is being distributed by Consumers Union, which has given sharply increased attention to the human services in the past few years; indeed, such attention is a top priority of CU's executive director, Rhoda Karpatkin.

- The three-year-old Office of Consumers' Education of the U. S. Office of Education has been alert to the human services. It has given support for a special issue of *Social Policy* magazine on "Consumer Education in the Human Services," several grants to projects focusing on the human services, as well as projects which devote attention to the human services as part of a broader agenda. This includes a statewide television and radio series in California, Massachusetts, and New Hampshire, teacher retraining programs in Kentucky and Michigan, and support for the National Association of State Boards of Education.

Consumer education in the human services derives its special character from both the nature of the human services and the attributes of consumer education. In the human services, there is often a lack of clarity, an absence of broad consensus and inadequate measurement of the services provided. There is also no clear pricing or market test as external controls on performance or as measures of accountability. For the most part, the human services operate in a monopoly condition, in fact a twin monopoly, since there is little or no competition for consumers and few, if any, alternative providers.

Consumers of human services thus need a program analogous to that of the goods sector. One can identify these areas using topics familiar to consumer educators.

- **Values and decision making.** Information should be provided on the value of the service, the benefits and consequences of its use, and the alternative choices which consumers can make. Such alternatives might be, in health, whether to take medication or have a heart bypass operation for angina; and in education, choices between particular courses or whether to pursue post-high school education now or later.
- **Price information.** Regardless of how payments takes

place (through the tax process as in public education or through third-party payments as in health care), consumers need to know the real (and full) costs of services provided, and alternatives.

- **Performance information.** For too long, consumers of human services have been told that performance issues were in the good hands of the professional providers, and were too complicated for laypeople to understand. While no doubt difficult, and surely more complicated than miles per gallon for cars or tensile strength for steel, performance measures for human services can be developed and made available to consumers. Indeed, a good deal of this has been done already (as with the Professional Standards Review Organizations in health) but has been kept from consumers. The articles in *Checkbook* show that understandable and useful performance evaluations can be developed for laypeople.

- **Provider comparisons.** Again, this is a complicated area. But as with performance information, consumers are entitled to know which hospital emergency room provides better service (a comparison *Checkbook* has made for District of Columbia hospitals), or which lawyer has greater success (the San Francisco Bar Association has rated judges but not lawyers!) or in which school system a child will receive better education. Of course, in each of these and similar cases, the needs of individual consumers will vary and a comparison system will require subtlety and sophistication, most likely combining quantitative measures of facilities and professional qualifications with objective outcome and consumer satisfaction. It might be a valuable learning experience for consumer education students to begin to develop such data for the human services in their community.

- **Payment procedures.** Since many human services are provided by government, identification of real costs is difficult, and often precludes payment alternatives. However, there are other means which can be considered such as the recently proposed "drawing account" for post-secondary education and training (which may be used at any time in an individual's lifetime), the various

voucher schemes for education and other human services, and the many proposals for health care payment.

- **Rights, responsibilities and redress.** It has been said that we live in an age of expanding "rights." In the human services, there has been an expansion of what can be called entitlements or access—to health care, to legal services, and to education for all handicapped children. Also, there is a second area which is more a matter of outcome, such as the right to learn, and the right to beneficial mental health services. These developments in the "rights" area have clear consequences for redress. Increasingly, as human services consumers are gaining a sense of their extended rights, they are demanding redress procedures which go beyond professional bodies (medical societies, bar associations, and even school boards), using the courts, political action, and other forums.

But it is not only activities analagous to those in the goods sector which consumer education in the human services must address. There is also a set of issues unique to the human services. Using an idea first presented by Victor Fuchs, we (the author and Frank Riessman) have developed the concept of the "consumer as the producer" in the human services. For example, the education consumer or the student is the producer of his/her own learning. So, too, in health services, it is the consumer who "produces" the return to health or maintenance of good health. While the providers' (teachers or health personnel) contribution may be important, at the bottom line, it is the *student* who must do the learning and the *patient* who must become healthy.

With this being the case, consumer education in the human services must not only help people to know about the alternatives and how to choose among them, but how to consume/produce them effectively. To adapt Keith Sehnert's term, we are concerned with developing "activated consumers," or persons who are able both to select appropriately the particular service and to be an effective consumer/producer of it—in education, to learn well; in health, to get better or to remain healthy; in counselling, to understand more.

Improving the performance of the student as a "producer"

of his or her own learning should be an essential part of consumer education. In helping students to do this, consumer education must first give them the knowledge and skills to "navigate" the school system—to know the rules, customs, and mores of the system. Second, they must be aware of how to gain redress. Third, and most important, they must be provided skills in learning how to learn. This involves self-awareness of individual learning styles, self-recognition of strengths and weaknesses and self-development of strategies to build upon the former and overcome the latter.

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As consumer education gains increased attention, the importance of the human services as a topic of concern must be recognized. The growing role of the human services—in terms of the work force, in terms of expenditures, in terms of their consequences for people's lives—warrants this increased attention. So, too, as there is an increasing challenge to the value of professional practice and to the worth of publicly provided (or paid for) services, consumers need to be better prepared. (Human service providers will also have to be better prepared, but that is a topic for another presentation).

Because of the special role of the human service consumer, an effective consumer education program can lead not only to greater consumer knowledge and satisfaction but also to the greater effectiveness of the human service system itself.

Consumer Education for Economic Survival in the 80s

by VIRGINIA H. KNAUER

The consumer movement of the 1960s and early 1970s saw much consumer legislation which reflected the public's anger of what was perceived as corporate America, through technology and bigness, ignoring and abusing the public's responsibility in the buyer-seller relationship of our free enterprise system. The result was the demand for more information from sellers in the form of "truth in lending," "truth in packaging" and "unit pricing." We are now finding, however, these programs are producing disappointing results. Studies have found that the additional information is often ignored or misunderstood.

It is my judgment that what we have done has not been misguided, but has been to put the cart before the horse. The analogy made here is between consumer information and consumer education. Information deals with necessary facts about products, services and the operation of the marketplace, while education deals with the utilization of those facts. Plainly, we mandated that facts be presented before we prepared the foundation for how people should use these facts. While consumer education has gained support since the onslaught of double-digit inflation, the energy

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crisis and the discovery by some companies that supporting consumer education could lead to profits, the main reason so many are turning to basic education as an answer is the frustration of trying to cope with the information explosion which has surrounded us. More importantly, however, consumer education holds for our society the greatest hope for retaining the economic system that Adam Smith argued for in the 1700s, that the consumer movement attempted to address in the 1960s, and that the American public now demands.

A Harris poll conducted last year for the Sentry Insurance Company showed that 74 percent of the public felt students leaving high school were either not very well prepared or not prepared at all as consumers. And in one of the few areas where consumer activists and senior business managers agree, the same study also showed that 97 percent of the activists and 82 percent of the managers felt the same way. In response to this feeling, 92 percent of the public supported compulsory consumer education.

The need for universal education and the right of every child to free schooling was recognized early in the history of our republic. It is clearly the time to look at how well the education we provide prepares people for their life in a complex modern society. The most basic transactions of modern society—finding a job, paying taxes or buying on credit—all require substantial mastery over the basic skills of reading and computation. In addition, they require a sophisticated understanding of our economic system and of the human factors involved in marketplace transactions.

We have suspected for a long time that many young people were coming out of our schools without the skills they need to cope effectively with the job market, the supermarket or the money market, and now two major studies have demonstrated just how bad the situation really is. Now we have the facts that confirm our suspicions.

The first of these studies focused on computation skills. In July 1975, I joined with the National Assessment of Education Progress in announcing the findings of their national survey on consumer math achievement. According to the survey, many consumers lack the fundamental math skills required

to cope with their economic problems. The survey of over 34,000 17-year-olds and 4,200 adults found that, in general, consumers were unable to use basic math principles, such as figuring fractions or computing percentages to make reasoned purchasing decisions.

Many of you undoubtedly are aware of a much broader report, the Adult Functional Competency study conducted in 1975 by the University of Texas at Austin with funding from the Office of Education. One of the innovative features of that study is that it looks not just at the mastery of basic skills but at the ability to use those skills to deal with the everyday needs of life, such as job-hunting, shopping and understanding insurance. The study found that 20 percent of the people surveyed function only with difficulty and another 34 percent, though functional, are not proficient.

The social and economic implications of this study are clear. The functionally incompetent tend to have low incomes and an unskilled job, if they have a job. They miss many of the benefits and the opportunities that are available to those who function proficiently. And what is more, they do not have the consumer skills to make the best use of the resources they do have.

The study looked at five areas of competence. More people—almost 30 percent—were functionally incompetent in consumer economics than in any of the other four categories. The other categories were occupational knowledge, government and law, health and community resources. In the consumer economics area an additional 33 percent were only just functional. Looked at the other way around this means that barely over one third of our adult population is proficient in the routine consumer transactions involved in managing a family's economy.

If consumers are going to use their economic resources effectively in today's marketplace, they must be equipped with the tools necessary to make reasoned planning and buying decisions. Without these skills, consumers will continue to rely mainly on hunches and advertising jingles in their purchases and will make even the most major economic decision haphazardly. And without these skills, consumers have no defense against fraud. They do not know how to find the

hidden meaning in the fine print or the hook in the bait and switch line.

The consumer math study and the University of Texas study are a challenge to our educational system. They clearly demonstrate that we are not providing people with the skills they need. In short, we are not providing an education for practical living.

For the many consumer educators who have fought long and hard for greater recognition of the importance of their field, these reports provide needed ammunition with which to continue the struggle. But consumer teachers need the support and leadership of education policy makers if they are to achieve success.

For those school systems that have not yet addressed the need for consumer education, these reports should also serve as both a stimulus and a guide.

As Terrel Bell, the former U.S. Commissioner of Education, said when he announced findings of the Texas report, "Results of this study call for some major rethinking of education on several levels. To begin with, adult education has to be reshaped so that students receive the kind of information that will make modern life easier for them. I also think state and local education agencies will want to examine what they are teaching even at the elementary levels, and perhaps reconsider requirements for high school graduation."

Although the University of Texas study surveyed adults from age 18 to 65, the implications for school-age children are starkly clear. If we are to prevent the upcoming generations of school children from entering the workaday world as handicapped as the present generation, we have to question and re-examine our whole approach to teaching consumer education.

First, we have to look at what we mean by "consumer education." Are we satisfied if some of the girls have taken a home economics course? Are we narrowing our view of consumer education by thinking of it only in terms of buymanship, in terms of saving pennies at the supermarket?

In the past, consumer education has been shackled by our limited expectations of what it should be. We need to begin

our re-evaluation with a broader definition. Based on my experience, I believe that consumer education is the process of imparting to an individual the skills, concepts, knowledge, and insights required to help each person evolve his or her own values, evaluate alternative choices in the marketplace, manage personal resources effectively, and obtain the best buys for his or her expenditures. In addition, consumer education must help people understand the rights and responsibilities of an informed consumer in the free enterprise system.

The University of Texas study defined the functionally competent adult in the consumer economics area as one who is aware of sound purchasing principles and able to manage a family economy. The questions asked by the study show the breadth and the depth of what consumer education should include. Among the things considered essential are an understanding of credit and banking, and of income and sales taxes. The study also looked at the individual's knowledge of buying techniques and his ability to recognize inappropriate forms of selling and advertising. Finally, the study considered the consumer's understanding of his role in the larger economy. Does the individual know what recourse to take if he is misled in the marketplace? And does the consumer understand that each individual's pattern of consumption influences the general welfare?

The challenge for us today is to find ways to incorporate these broad subject areas and skills into school curricula. Initially, we must recognize consumer education as an objective of our educational system. Then we need to make classroom learning relevant to the consumer experience.

First is the relevance of traditional classroom skills such as reading and arithmetic to the student's life in the marketplace. Reading should include reading of the kinds of material that consumers will find on warranties, loan agreements and product instructions. For the consumer, reading skill means being able to read contracts or advertisements with enough sophistication to understand what is there and to question what is missing or hidden in the fine print.

Math needs to include the real world problems of making change, translating measurements, and keeping accounts. Students must understand that percentages, for example, are

not just a mathematical abstraction but the key to tipping in a restaurant or calculating interest rates and the cost of credit.

In addition, students need specific training in how our economic institutions work and how to use them. For example, young people need to learn about our banking system, how to maintain a checking account and the very serious implications of writing checks against insufficient funds. Similarly, future consumers need to know how credit charges are computed, how the costs can add up and the hazards and advantages of committing future income to credit payments. They also need to know how the credit rating systems works and the far-reaching effects of a bad credit rating which can even impair chances of employment.

The second aspect of relevance we must focus on in consumer education is the relevance of an individual's personal consumer concerns to the national economy. For many students, economics seem dry and abstract because they do not see how they, as consumers, fit into the overall picture.

And yet, can the consumer understand what inflation means to him if he doesn't understand what the Consumer Price Index is all about? Can he understand the fluctuations in interest rates without a rudimentary knowledge of national fiscal and monetary policy? Can he even understand prices in the supermarket without understanding the impact of supply and demand?

Recognizing consumer education as a broad, multidisciplinary subject is a challenge to our state school systems. It cuts across traditional boundaries within the curriculum and so we must develop new approaches.

Because the task of consumer education is so great, we need the utmost economy of effort. We cannot afford the wasteful duplication that would result if each school district tried to meet the challenge of consumer education on its own. But we also cannot afford to wait much longer for consumer education to stop being the stepchild of other disciplines, as it should become a fully integrated partner. Consider these few facts:

Fact: The U.S. Office of Education reports that in 1977

only eight states currently have statute requirements for compulsory consumer education—Illinois, Oregon, Florida, Hawaii, Arizona, Nevada, Ohio and Rhode Island.

Fact: A report released in April 1976, by Dr. Thomas O. Stanley of Missouri Southern State College revealed that even in states where consumer education is required, the quality of that education may be questionable. Dr. Stanley evaluated the consumer education program in Illinois—the state which has the longest history of a consumer education mandate, dating back to 1967. He found that less than 1,800 of the more than 8,000 students surveyed had even completed a course in consumer education. Based upon the preponderance of students who had not taken the course, Dr. Stanley's study would indicate that serious attention is not being given to this important subject, even when state law makes consumer education a prerequisite for graduation.

Fact: Whether consumer education courses are mandated or not, there remains the problem of teacher training. This problem is highlighted by a statewide survey of public school teachers conducted by the Indiana Project for Consumer and Economic Education. According to the findings of that study, 67 percent of the teachers surveyed had not taken any course dealing with consumer education. At the same time, the study found that 50 percent had not taken any course in economics.

These and other facts presented elsewhere are extremely disturbing to me because they clearly demonstrate that we are not providing people with the consumer education skills they need nor with the trained personnel to teach these skills. Therefore, with so many people who can barely cope, if at all, we must make renewed efforts to provide the foundation for people to function more effectively in our society.

Some generalizations from the Harris poll, already mentioned, are that the public believes that over the next ten years labeling and information about products will get better (76 percent) and consumers' shopping skills will have gotten better (76 percent). Indeed, I hope this is the result we will see in the 1980s, but these are high expectations of the public, which our school systems are not now geared to help meet.

The lessons of the 1960s show that more information under current conditions will only help the few, well educated in our society, or about 30 percent of the population. And the studies of the 1970s show improved skills are doubtful unless we take firm and positive action.

There is also another advantage of having well prepared consumers emerging from our school systems. Many people, including myself, have come to believe that fundamental consumer skills will help people to deal better with periods of inflation and shortages. Some argue that if consumer education prepared people to deal with supply and demand principles, it could even be used to fight inflation.

The cost of everything has to continue going up, and we may eventually admit that inflation is an omnipresent reality with which we have to cope. (Over a 30-year period since WW II, only in one year, 1948, did the Consumer Price Index show a decline.) The energy shortfall, the cost of pollution-abatement equipment, the increasing affluence of the world market bidding for U.S. products, all add up to ever-increasing costs of living and the need for families to re-examine what has been for a long time an extravagant life style.

It will mean conserving and making do; it will mean reliance on creativity and imagination rather than on dollars for buying new. For our young people, raised in a period of relative opulence, it will mean serious re-thinking, stock-taking, and planning. And for the process of change into a period of relative austerity, consumer education can play a significant role in guiding and directing our young people so they can get the greatest mileage out of their vital resources: time, energy, and money. If consumer education is successful, it can actually mean that the level of living—the quality of life—can be greater than ever before despite a stringent economy.

If as consumers we are all busy economizing, we're going to look around and question some wasteful practices in the marketplace. If marketing costs are so great—that includes packaging and shipping—why are we still over-packaging our products and permitting "dead-heading" (trucks returning empty because of government regulation).

Today housewives are resisting the overpriced convenience

foods, and relying on their cook books for recipes using something other than sirloin steak. Eating habits are changing—some nutritionists are saying for the better.

And on the subject of energy, we're finally realizing that we can't keep our homes at 80 degrees in the winter and 70 degrees in the summer (the only country in the world which has engaged in such practice).

The conclusion is that planning and the intelligent use of time, energy and money in keeping with one's own value system, can mean an improved quality of life even in an era of austerity.

The WIN (Whip Inflation Now) Program initiated in 1974, was predicated on this conclusion, but as with the information programs of the 1960s, we again put the cart before the horse. People did not have the skills nor the understanding necessary to make the program work. So we turned away from voluntary programs where the buyer can fully participate in the marketplace, to government manipulation of taxes and other incentives to control inflation. While I will be the first to agree some manipulation through fiscal and monitary policy in our complex world is necessary, I also think we need a participating citizenry involved in making the system function as it is designed to function.

The proof that participation through education is possible is demonstrated clearly by the work of the National Consumers League headed by Sandra Willett. An article which previously appeared in this series discusses the "Assertive Consumer" program funded by the Office of Consumers' Education in the Office of Education. In just this one effort the first post-testings show a 29 percent increase in assertiveness and a 59 percent increase in knowledge of the subject matter by the participants.

With the kind of results shown in the National Consumers League program, I can just imagine the benefits if the nation's educational establishments were turned in and turned on to consumer education. We will have to do something soon, in any case, as there are few who can condone for long the rapid fluctuations in the Consumer Confidence Index as we are now seeing; the high consumer frustration level indi-

cated by the A. C. Nielson study (1977) on "Consumer Quality," which shows that about 50 percent of all people with complaints about supermarket products do not voice their complaints; and the lowest credibility rating for business and government we have seen in scores of years.

Let's face it, the poor do pay more, the elderly are facing a crisis in health care services (as we all are), and the young are aiding in the boom we are seeing in bankruptcy proceedings and have helped create a scandal in student loan programs. Well, what can consumer education do, what will be the effects on the marketplace?

The business community has long viewed "consumerism" with suspicion and mistrust, but we are now finding that attitude changing, mostly because good consumers help the marketplace work as we expect it should work. Also, other developments predict the effect of even better prepared consumers as in the studies of Paul Bloom and Mark Silver of the University of Maryland. In an article published in *Harvard Business Review* (January-February 1976), titled "Keeping Informed," the authors describe some of the changes we can expect from more and better consumer education in our school systems. To paraphrase their findings, they predict that consumers will:

- become more willing and able to express their wants and needs to marketers in the form of unsolicited letters, responses to marketing research questions, or other methods of communication.
- seek out and use more information to help them compare price, quality and service before making a purchase.
- buy a progressively greater proportion of their purchases from marketers who offer relatively extensive, easily available information about their products and services and who conduct relatively large consumer education programs.
- become less likely to purchase products that are potentially harmful to their health or to the environment—products like cigarettes, alcoholic beverages, sugar-laden foods, or low-mileage automobiles.

- seek remedies, redress, or restitution more actively when dissatisfied with a product, service, or marketing practice.
- tend to become more active participants in the debates over legislation that could affect the workings of the marketplace.

Bloom and Silver also argue that the consumer education movement "could alter the character of competition in numerous industries as marketers respond to a changing consumer population and to each other's changing practices." To paraphrase again, they predict that marketers will:

- respond more rapidly and effectively to changes in consumer wants and needs. Careful monitoring of survey results and letters from consumers should help marketers make more timely and successful new product introductions or product revisions. There should be fewer new product failures and shorter introduction and growth stages in the life cycle of new products.
- provide consumers with more information about product attributes, benefits, and use through advertising, packaging and labeling disclosures, and so on. In those industries where consumers perceive products to have similar physical attributes, information "wars" could even develop among competitors as each tries to win over information-seeking consumers.
- utilize more extensive pretesting and quality-control procedures to avoid selling products that could be hazardous to people's health or safety.
- develop more efficient and sophisticated systems for handling complaints, inquiries, repairs, refunds, and exchanges.
- become less likely to use misleading, deceptive, or unethical practices to sell their products.
- become less likely to try to take advantage of consumer ignorance or a lack of consumer information by charging prices much higher than those of competitors.

The above implications for consumers and for marketers can only be predicted by laying the proper foundation through

our education system. And in recognizing these implications as valid national goals, the subject of consumer education has also reached the attention of the leadership of our country.

Four Presidents of the United States have endorsed the four basic rights of consumers since they were first set forth by President John F. Kennedy and added to in 1975, with the addition of the Right to Consumer Education. In announcing the fifth right, President Ford stated:

> "In the last decade, the Buyer's Bill of Rights has become a way of life in our country. These rights include information, choice, safety and the right to have complaints satisfactorily resolved.
>
> "The time has now come to recognize a fifth right—one without which consumers cannot gain the full benefit of the other four. This is the right to consumer education.
>
> "It is my earnest hope that consumer education will become an integral part of regular school instruction, community services and educational programs for people out of school. Only in this way can we ensure that consumers have the assistance necessary to plan and use their resources to their maximum potential and greatest personal satisfaction."

The fifth consumer right, the right to an education for practical living, has not been fulfilled for many Americans. It is a goal, and a worthy one for us to achieve in the 1980s.